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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

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1 December 1983

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst, NIO for Economics

SUBJECT: December 2 NSC Meeting

1. Two questions will be presented for decision at the December 2 NSC meeting: (1) whether to expand foreign policy controls on exports to Libya; and (2) whether to change the basis for unilateral US controls on exports of oil and gas equipment and technology to the USSR from foreign policy to national security.

Controls on Exports to Libya

2. The US already controls most exports to Libya on foreign policy grounds. Partly as a result of these controls, US exports to Libya have declined about 75 percent over the past two years, and most remaining exports consist of products, such as foods, which are not controlled. An interagency working group consisting of State, Defense, and Commerce, was established on 9 September to develop a proposal for expanding US controls. The attached discussion paper is the product of this working group. I understand it has the support of State and Defense, but not of Commerce. The proposal would expand controls to broad categories of US products destined for the development of Libya's "strategic infrastructure," which apparently covers virtually all of heavy industry, transportation, and major infrastructure projects. Adoption of these controls would further reduce US exports to Libya. More important, however, it would take US firms out of the bidding for some major new development projects that Libya is dangling before them--notably, the so-called "Great Man-made River Project," which would channel water from a vast underground aquifer in the southern desert to the northern coastal belt, and may cost some \$14 billion. This project has recently been revived by Qadhafi after being in suspense for some time; contracts are being let, including to Bechtel, Price-Waterhouse, and Brown and Root. The attached memo prepared by NESa for Don Fortier of the NSC discusses Qadhafi's current use of showcase development projects as inducements for US firms whose help he has actively sought out with the hope of putting pressure on the US Government.

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3. At the same time, DOD is examining the possible use of Libya to divert technology to the USSR. CIA has found no evidence of such diversions.

4. Everyone agrees that US export controls are primarily intended as a signal of disapproval of Qadhafi's policies and cannot be expected to have much impact on the Libyan economy. Although some of our Allies have limited exports of military equipment to Libya, they are clearly not prepared to restrict civilian exports, and consequently can easily replace US suppliers of practically anything Libya buys. There is also considerable evidence that Saudi Arabia is putting together an Arab consortium to help finance the Great River Project.

US Controls on Exports of Oil and Gas Equipment to the USSR

5. The US has proposed for COCOM control a list of 21 items of oil and gas equipment and technology. The justification for COCOM controls is that these items have significant actual or potential military uses by the USSR. The proposal has been under review by the ad hoc committee of COCOM, which will meet again in January. The COCOM review process will take at least several more months.

6. The items proposed for COCOM control are currently under unilateral US national policy controls. Some applications for licenses of controlled items have been approved. DOD would like to put these items under unilateral national security controls, at least pending a final decision in COCOM. The issues in this case are more bureaucratic than substantive, but feelings are running high. There are all kinds of cross-currents, some of which are difficult to fathom.

7. The attached memo on the issue, prepared by Commerce, gives useful background, but does not present the arguments for or against the proposed change in unilateral controls in a coherent manner. As I understand it, the main issues are the following:

- (1) Whether the change to national security controls would increase or reduce the chances of COCOM approval of the items? -- It would probably make little difference. The proposed change would underline the seriousness of the US proposals, and would make US unilateral criteria more consistent with our COCOM presentation. Some in State argue, however, that our Allies would react adversely because of concern that denial of US licenses would lead to new extraterritorial hassles.
- (2) Whether the proposed change would enhance or reduce US flexibility in its own trade policy vis-a-vis the USSR? -- Foreign policy controls are almost certainly more flexible, but they are also less well understood, and consequently are more subject to misunderstandings.

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- (3) Whether or not the proposed change would adversely affect US business interests to the advantage of our Allies? -- It seems clear that the shift to national security controls would mean the denial of most license applications for these categories at least until the COCOM review process is completed. This would hurt US firms, although perhaps not much if items not approved by COCOM and readily available outside the US were subsequently dropped from the list.

My personal impression is that what matters most is what kind of signal the US Government tries to give about its trade policy vis-a-vis the USSR and the way this will involve our Allies.

8. Besides these substantive issues, there is great concern over who controls the export control decisions (whether DOD or State) and much heat over the way the 13 September ACEP meeting, chaired by Larry Brady, was run. At that meeting, Defense, Energy, and State representatives agreed on a change to national security controls. Subsequently, State strongly reversed its stand, and accused Brady of "railroading" the proposal.

9. The list of items in question is the result of a serious attempt by analysts from CIA, Commerce, and DOD, to identify items with substantial military uses. Close relations of many of the items (e.g., navigational and acoustic equipment, deep submersible pumps) already are on the COCOM list. Other items (drilling rigs, well logging equipment) have less direct and obvious military uses, and may be harder for COCOM to accept. Earlier attempts to present a much larger list, which required economic as well as military criteria, were rejected by other COCOM countries, who insisted on using established COCOM criteria. There is no question that imports of Western oil equipment and technology will be of increasing importance to Soviet oil development of the next decade and beyond, especially in deep off-shore areas. Unfortunately, our Allies have shown no sign whatever of being willing to use this potential lever of influence.

10. You should also be aware that the NSC has asked the DDI to prepare a study on Soviet imports of strategic oil and gas equipment. SOVA expects to complete this study by December 16th.



Maurice C. Ernst

Attachments,
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